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TAGS: [PARM](#) [ENRG](#) [KNNP](#) [PREL](#) [ETTC](#) [MNUC](#) [AS](#) [CH](#)

SUBJECT: DISCUSSIONS BEGIN FOR CHINA TO BUY AUSTRALIAN URANIUM

REF: BURKART-FITZGERALD 2/19 E-MAIL

Classified By: POLCOUNS WOO LEE FOR REASONS 1.4 (B AND D).

11. (C) SUMMARY: John Carlson, Director General of the Australian Safeguards and Nonproliferation Office (ASNO), told us his late-February trip to Beijing to begin exploratory discussions on an "agreement for cooperation" on uranium sales to China went well overall. He described his interactions with the Chinese as friendly and positive as PRC officials agreed to all but one of the GOA's standard "safeguards" requirements for uranium transfers. Beijing's one objection was to the condition that China place its nuclear energy facilities where Australian uranium was located under "voluntary offer" to the IAEA. Chinese officials argued that doing so in a Nuclear Weapons State (NWS) was a waste of IAEA time and money. Nonetheless, Carlson was confident that the PRC could eventually be persuaded to do so, and he intended to draw French counterparts into the discussions with China so they could describe France's method for placing certain facilities under voluntary offer as required by its bilateral agreements with supplier nations. Carlson also provided an analysis of future Chinese energy needs and capacity. He said the Chinese had subtly indicated they were not producing weapons-grade fissile material. He also gave us details of PRC R&D efforts with South Africa to manufacture pebble-bed nuclear energy reactors and said Australia might be interested in importing them someday. END SUMMARY.

12. (C) ASNO DG John Carlson gave us a readout of his February 19 - 24 trip to Beijing to begin exploratory talks on a bilateral cooperation agreement that would enable China to purchase uranium from Australia under a long-term contract for its nuclear power reactors. Carlson characterized the discussions as friendly and positive, with Chinese officials raising only one "philosophical objection" to the standard safeguards-type terms that the GOA required in all of its uranium export agreements.

TERMS OF AGREEMENT: WHAT CHINA FOUND ACCEPTABLE

13. (C) Carlson said the text of the Australian-proposed "agreement for cooperation" was very similar in substance to the GOA's agreement with the U.S., and was considered a standard model for agreements with a Nuclear Weapons State (NWS). The Chinese had no problem agreeing to a "no military use" clause, which Carlson said specifically excluded the right to produce tritium. PRC officials also had no difficulty agreeing to Australian consent rights for all retransfers; prohibition of any alteration in form or content (in other words, no enrichment above 20 percent U-235); and Australian "catch-all" controls on all related uranium technology or equipment transfers. The Chinese asked Carlson for a clause providing prior consent for reprocessing at a civilian reprocessing plant they hoped to have built by 2020. Carlson, however, found the Chinese plans too vague and proposed instead drafting a side letter that would "sympathetically view" Chinese requests for reprocessing on a case-by-case basis, which seemed to satisfy his interlocutors.

WHAT CHINA FOUND PROBLEMATIC: IAEA VOLUNTARY OFFER

14. (C) Carlson said Chinese officials were initially not comfortable with the GOA "bottom-line" requirement to place all facilities where Australian uranium was housed on the IAEA's "voluntary offer" eligibility list. He explained to the Chinese that it was routine for NWS to do so; all U.S. civilian nuclear energy facilities were on voluntary offer to the IAEA and, while the IAEA seldom conducted inspections in NWS, placing their facilities on the eligibility list "conveyed a commitment to nonproliferation" to the international community. The Chinese tried to argue that it would be a waste of IAEA resources to inspect facilities in an NWS. Carlson countered that the UK, Russia, and France had listed many of their nuclear energy facilities. In one instance, Russia had taken the initiative to put a particular centrifuge enrichment plant on voluntary offer, presumably because it wanted to build confidence in the technology to foster future exports. Carlson reassured the Chinese that

IAEA involvement through the voluntary offer would have to be done in accordance with China's safeguards agreement with the IAEA. He also explained the somewhat complicated French scheme for listing and de-listing facilities as foreign-procured uranium was used in them and offered to hold a trilateral follow-up meeting with France to discuss this option in-depth during the next Standing Advisory Group for Safeguards Implementation (SAGSI) meeting in Vienna in June.

15. (C) Carlson was optimistic that the Chinese would eventually come around on voluntary offer for facilities using Australian uranium. He noted that China had already placed Canadian, French and German-procured or licensed reactors on IAEA voluntary offer. Two Chinese-manufactured reactors at Qinshan were also on voluntary offer, and Carlson's interlocutors even suggested that it might be useful to have the IAEA inspect these reactors because China wanted to export this kind of reactor to Pakistan. Carlson emphasized to the Chinese that there could be no exception for China to standard practice on voluntary offer, and the PRC officials appeared to understand this. The GOA had 19 bilateral agreements for uranium sales or transfers, and Carlson pointed out to his hosts that the one for China would receive particularly close public scrutiny.

#### CHINA'S ENERGY NEEDS AND LIMITS TO AUSTRALIAN EXPORTS

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16. (S) Even if Australia and China do reach an agreement, Carlson's analysis of China's future energy needs and Australian export capacity appeared to indicate that there would be limits to cooperation. Carlson noted that nuclear energy only accounted for two percent of China's current energy production. According to a briefing he received from the Chinese National Development and Reform Commission, Carlson said, the PRC wanted to increase the nuclear energy share of total energy production capacity to four percent by 2020. Over the same period, however, China's current 440 gigawatts of total energy capacity would more than double to 950 gigawatts, meaning that to double nuclear energy capacity to four percent would actually require a four-fold increase. (Carlson predicted that coal usage would also double by 2020, which meant that even a fourfold increase in nuclear energy would still "not provide any appreciable Kyoto Treaty greenhouse gas reduction benefits.")

17. (S) It was Carlson's understanding that China only had 70,000 tons of low-grade uranium left to mine in its own territory and would need to import 8,000 tons per year in a stable, long-term contract to meet projected needs. This would comprise a full 80% of Australia's current annual export of 10,000 tons per year. He said the Chinese expressed interest in uranium exploration in Australia, which had the world's largest uranium deposits. Carlson had to explain to his hosts the "difficult politics of Australian Labor Party-led governments" that control all of Australia's states and territories and continue to block the development of additional uranium mines in their relevant jurisdictions.

#### PRC INDICATES NO PRODUCTION OF FISSILE MATERIAL

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18. (S) Carlson also asked the Chinese whether they were still engaged in weapons-grade fissile material production. He said he found the answer he got "a bit coy." The officials told him that the PRC wanted negotiations on a Fissile Material Cutoff Treaty (FMCT) to begin as soon as possible, and he should infer from that that China was not producing such fissile material. Carlson told us he did not believe Beijing was engaged in producing highly enriched uranium for weapons, in part because he estimated that China already possessed some two to six tons of weapons-grade plutonium, which ought to be sufficient for its nuclear weapons plans.

#### NEXT STEPS: NO HURRY

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19. (C) Carlson's next move was to complete a consolidated revision to the draft text based on Chinese "fine-tuning," but he was not sure of the timeframe for future negotiations, noting that neither side had a formal negotiations mandate. He did expect that there would be another round of talks in Canberra before trilateral talks in Vienna with French officials in June. Carlson did not sense that the Chinese were in a great hurry.

#### BEIJING TO BUILD SOUTH AFRICAN REACTORS FOR EXPORT?

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10. (C) Carlson said he had learned that China had concluded a research and development agreement with South Africa for joint development of pebble-bed nuclear reactors, even though China considered the technology unproven. He understood that South Africa was more optimistic that the reactors would be commercially licensable early in the next decade. South

Africa would build the prototype, but the expectation was that China would actually manufacture the pebble-bed reactors for export under South African license. According to Carlson, the GOA's envisioned bilateral nuclear cooperation agreement with China would be broad enough to cover all eventualities, so that Australia might some day import such reactors from the PRC. (NOTE: This assumes, of course, that the ALP, Greens and the Australian general public drop their opposition to nuclear energy in the meantime. End note.)  
STANTON